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UNCLAS ALMATY 002688

SIPDIS

DEPT PASS TO EUR/CACEN MUDGE  
DEPT PASS TO OPIC - BALLINGER  
DEPT PASS TO TDA FOR STEIN, EXIM FOR GLAZER  
DEPT PASS TO AID - EE-PHILLIPS/RUSHING  
TREASURY FOR OASIA/VELTRI  
USDOC FOR 4231/ITA/MAC/MLONDON, 4201/BISNIS  
USDOC FOR 6110/ITA/TD/BI/RHALPERN  
ANKARA FOR CFC

E.O. 12958: N/A

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SUBJECT: KAZAKHSTAN ECONOMIC AND ENERGY UPDATE

June 26 - July 9, 2005

[1](#)1. Summary: This information is drawn primarily from the Kazakhstani local press, and has not been checked for accuracy. The opinions and policies expressed in this report are those of the authors, not the U.S. Government.

-- Kazakhstan Elected to WCO Political Commission  
-- Parliament Approved 2004 State Budget Execution  
-- Labor Violations by Foreign Employers  
-- GoK to Reduce Administrative Costs  
-- Agreement on Trans-Kazakhstan Railway Signed  
-- Gradual Transfer of Airlines from Almaty to Astana  
-- Kurmangazy PSA Signed  
-- Kazakhstan-Russian Joint Venture for Ekibastuz GRES-2  
-- President Signs PSA Law  
-- Kazakhstan to Join BTC Pipeline Soon  
-- Kazakhstan, Poland Discuss Odessa-Brody-Plozk Pipeline  
-- Kazakhstan May Privatize Polish Oil Refinery  
-- Oil & Gas Statistics  
Kazakhstan Elected to WCO Political Commission  
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[1](#)2. Kazakhstan has been elected a member of the political commission of the World Customs Organization (WCO) for the first time in history, the press service of Kazakhstani Foreign Ministry reported. Kazakhstan will represent and defend the interests of all CIS members and Baltic States at the WCO. (RosBusinessConsulting, June 27)

Parliament Approved 2004 State Budget Execution  
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[1](#)3. The press service of the Parliament reports that budget revenues in 2004 were KZT 978,358.9 million (approximately \$7,247 million) and exceeded planned volume by 4.7%. Meanwhile, state budget expenditures in 2004 were KZT 995,620.5 million (\$7,375 million), which is 96.9% of planned spending. Unutilized state budget funds amounted to KZT 31,349.1 million (\$232.2 million). The budget deficit totaled KZT 17,261.6 million (\$127.9 million). After two weeks of hearings, the deputies approved the reports and did not seek the Government's resignation, as some deputies said they would. The Parliament recommended that the Government upgrade its monitoring of the administration of the budget. (Interfax - Kazakhstan, June 28)

Labor Violations by Foreign Employers  
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[1](#)4. The Supervisor for Legitimacy Control Dulat Kustavletov reported the results of inspections conducted by the national Procurator General's Office. According to Kustavletov, fully half of the foreign companies working in Kazakhstan are in violation of the country's labor laws. The most widespread indicator of discrimination against Kazakhstani employees is the difference salaries: local staff tends to be paid 4-7 times less than foreign employees with same qualifications. The Procurator's Office appealed to the GoK to take steps to eliminate these violations. (Interfax-Kazakhstan, June 28).

GoK to Reduce Administrative Costs  
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[1](#)5. According to Prime Minister Akhmetov, administrative costs will be reduced by up to 23%. He said these costs should be decreased because Kazakhstan has extremely large expenditures for such a small country. Today, administrative costs make up 25.3% of the state budget. These expenses have increased by 3% over last three years, the Prime Minister added. The Ministry of Economy was assigned the task of finding ways to reduce administration costs. (Golden Eagle Service, June 30)

Agreement on Trans-Kazakhstan Railway Signed

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16. Kazakhstan and China are to build the Trans-Kazakhstan railway, under an agreement between Chinese President Hu Jintao and Kazakhstani President Nazarbayev. The construction project's cost is estimated at \$2.5 billion, according to the national rail company Kazakhstan Temir

Zholy. The railway will connect Southeastern Asia with Europe via Dostyk, Aktogai, Zhezkazgan, Beineu and Aktau port. The 3,083 km-long rail will stretch through Kazakhstan, Turkmenistan, Iran, Turkey and Europe. (Novecon, July 5)

#### Gradual Transfer of Airlines from Almaty to Astana

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17. Prime Minister Akhmetov and representatives of the Ministry of Transport and Communication considered a step-by-step increase of international flights going to Astana. The transfer of international airlines is planned for October 2005. In the first stage, one flight from each international airline will land in Astana. The next step is to achieve an equal distribution of the flights to Astana and Almaty, with a subsequent further increase in flights to Astana as demand increases. (GoK Press-Service, July 4)

#### Kurmangazy PSA Signed

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18. On July 6, Production Sharing Agreement (PSA) for Kurmangazy field (Kazakhstan's sector of the Caspian Sea) was signed by the Kazakhstani Energy Ministry, KazMunayTeniz (offshore subsidiary of national oil producer KazMunayGaz) and RN-Kazakhstan (a Russian Rosneft subsidiary). The PSA is signed for 55 years, including 2 years of exploration, 3 years of assessment and 4-5 years of field facilities construction and production initiation. Joint investments are expected to be \$23 billion and profits should total \$50 billion, of which Kazakhstan's share is about 77%. Kurmangazy recoverable reserves are estimated at around 7.7 billion barrels of oil. The shareholders in the project are KazMunayGaz (50%) and Rosneft (25%). Russian Zarubezhneft has an option for 25%. (Interfax - Kazakhstan, July 6)

#### Kazakhstani-Russian Joint Venture for Ekibastuz GRES-2

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19. On July 6, the Kazakhstani Energy Ministry and Russian Unified Energy System (RAO UES) signed a protocol on creation of a joint venture at the hydroelectric power station Ekibastuz GRES-2 (Eastern Kazakhstan). Russia received 50% of GRES-2 as payment for a \$239 million debt, which the Kazakhstani state company Kazakhstanenergo accumulated in 1993-96 for energy supplies from RAO UES. Russia also gains control of the North cargo-transportation department and the railway stations "Trudovaya" and "Udarnaya". (RAO UES Press Release - July 6).

#### President Signs PSA Law

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110. On July 9, President Nazarbayev signed the law on Production Sharing Agreements (PSAs) for offshore oil operations. The law spells out PSA parties' rights and responsibilities in the Kazakhstani sector of the Caspian Sea (KSCS) and Aral Seas. The state oil and gas company KazMunayGaz will have at least 50% in KSCS projects. The KSCS's recoverable reserves are estimated to be about 60 billion barrels of oil. (Interfax - Kazakhstan, July 11)

#### Kazakhstan to Join BTC Pipeline Soon

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111. According to Prime-Minister Akhmetov, intergovernmental procedures for the preparation of an agreement on Kazakhstan's joining the Baku-Tbilisi-Ceyhan (BTC) pipeline are almost completed. "In the nearest future the agreement will be signed," the Prime-Minister stated on July 8. It is planned that Kuryk, a new port south of Aktau, will be a part of the project. (Interfax - Kazakhstan, July 11)

#### Kazakhstan, Poland Discuss Odessa-Brody-Plozk Pipeline

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112. On July 7, during Polish Economy Minister Piechota's visit to Kazakhstan, KazMunayGaz and the Polish company PERN signed a memorandum on cooperation that addressed the expansion of the Odessa-Brody pipeline to the Polish town of

Plozk. Kazakhstan's participation in the project will consist of either oil supplies to the future pipeline or capital investments into its construction. (Interfax - Kazakhstan, July 11)

#### Kazakhstan May Privatize Polish Oil Refinery

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113. According to Polish Economy Minister Piechota, Kazakhstan confirmed its interest in participating in the privatization of the Polish company LOTOS. The company's main asset is the oil refinery in Gdansk. Currently the company is undergoing is the first stage of its privatization; during the second stage, Poland will look for an investor. "Kazakhstan might be a good investor," Minister Piechota stated. (Interfax - Kazakhstan, July 11)

Oil & Gas Statistics

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114. In H1 2005 oil production in Kazakhstan was 25.2 million tons, 3.9% higher compared to the same period in 2004, the National Statistics Agency reported. During the same period, 5.9 million tons of gas condensate, up 57.5% year-on-year, was produced. (Interfax - Kazakhstan, July 11)

115. From January-May, Kazakhstan exported 24.1 million tons of oil and gas condensate, 12% higher compared to the same period in 2004. In dollar terms, it totaled \$6.8 billion, a 79% increase. (Interfax - Kazakhstan, July 11)

116. In H1 2005 Kazakhstan refined 5.3 million tons of oil, a 15.5% increase year-on-year, the GoK reported. (Interfax - Kazakhstan, July 12)

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